

AGENDA ITEM: CLSA Interlibrary Loan, Universal Borrowing, Equal Access Program

ISSUE TO COME BEFORE THE BOARD AT THIS MEETING: Consider prorating the CLSA loan reimbursement program for 2001/02.

RECOMMENDED MOTION FOR CONSIDERATION BY THE BOARD: I move that the Library of California Board direct its Chief Executive Officer to withhold 5% of all CLSA ILL and Direct Loan Program reimbursement payments throughout the 2001/02 fiscal year and that, after determining the full State cost of the ILL and Direct Loan programs for the 2001/02 fiscal year, direct the Chief Executive Officer to pay the full amount remaining due to each participating library if sufficient funds remain in the 2001/02 CLSA ILL and Direct Loan Program appropriation, or to prorate the final payment equitably if insufficient funds remain in the 2001/02 CLSA ILL and Direct Loan Program appropriation.

BACKGROUND:

By agreement with the Department of Finance the annual State appropriation for the CLSA Interlibrary Loan and Direct Loan Programs is determined by the Enrollment/Caseload/Population (ECP) process. This method was selected because the costs of the loan programs are driven by factors that are, essentially, beyond the control of local and State government. More specifically the costs are determined by the actual handling costs realized in libraries providing the service and the actual number of times the service is utilized by Californians. While the handling costs are to a certain extent, controllable by individual participating libraries, the statewide average cannot be easily controlled or predicted. The second factor, usage, can only be controlled by clearly inequitable means; that is, by denying services to individuals after a calculated maximum number of transactions has occurred.

For these reasons, the ILL and Direct Loan program appropriation in any single fiscal year, is based on estimates of the increase or decrease in handling cost, and projections of the levels of use, as well as the availability of funds. The program has been extremely successful and popular but its history has been marked by years of shortfalls in the annual appropriation. The 2001/02 Budget Act contains language requiring the Board to prorate reimbursement payments in the event of an insufficient appropriation.

The pro rating requirement states:

Should the funds appropriated in Schedule (c) be insufficient to fully cover all transactions under the Direct Loan and Interlibrary Loan programs of the California Library Services Act, funding shall be pro rated such that expenditures for the program are within the appropriation made in Schedule (c)

of this item.

This requirement, being a more recent act of the Legislature supersedes the requirement that the State Board reimburse at the full rate adopted by the Board as approved by the Department of Finance. However, it does not set aside the provision of Education Code Section 18703(f) to reimburse participating libraries equitably.

In August 2000 the Board adopted the method for implementing the prorating requirement by withholding a percentage of each valid claim throughout the course of the fiscal year, paying the remainder due, or a pro rated portion of the remainder due, after the close of the fiscal year. For the first year, in 10 years, the state will reimburse eligible loans at 100% of the Department of Finance approved rates. The 1999/2000 fiscal year came close to full reimbursement by reimbursing participants at 99.7%.

The actual experience of the 2000/2001 fiscal year is summarized below:

Fiscal Year Full Reimbursement Cost		
at Department of Finance approved rates		
(ILL--\$3.21; DL--\$0.63)		
ILL		\$ 3,589,913
Direct Loan		<u>\$ 6,486,849</u>
Total		\$10,076,762
ILL & Direct Loan Program Appropriation		\$10,894,000

Final payments to reimburse all participants at 100% (at Department of Finance approval rates) are currently being processed.

Recommendation:

At its June meeting the Board authorized payment of loans from nonpublic libraries to public libraries be made from CLSA funds. At the time of the June meeting staff felt confident that the 2001/02 TBR appropriation would be sufficient to cover all public library loan, as well as, the nonpublic loans to public libraries. After receiving fourth quarter transaction levels, staff is recommending that the Board consider prorating CLSA reimbursements for 2001/02.

Based on current projections of transactions for the 2001/02 fiscal year and the reimbursement rates of \$3.82 for ILL and \$.73 for Direct Loan, the full State cost of the CLSA loan program for fiscal year 2001/02 is estimated to be as follows:

Eligible Public Library Interlibrary Loans	1,174,271	@	\$3.82	=
\$4,485,715				

Eligible Nonpublic Library Interlibrary Loans	43,194	@	\$3.82	=	\$ 165,000
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Net Imbalance Direct Loans	10,538,000 @ \$.73 = \$7,692,740
Estimated Total Program Cost	= \$12,343,455
2001/02 State Appropriation	= \$12,145,000
ILL and Direct Loan Program Shortfall	= \$ 198,455

If projected transaction levels are actually realized the 2001/02 CLSA ILL and Direct Loan program appropriation would fall short of being sufficient to pay the full reimbursable cost of the program by an estimated \$198,455, or about 1.6% of the estimated total program cost. Due to the varying levels of increases and decreases in transactions over the last several years (see Exhibit B), staff is recommending that a larger margin for transaction growth be built into the percentage withheld, and that 5% of each payment be withheld during the course of the 2001/02 fiscal year.

GENERAL OVERALL PROGRAM UPDATES:

CURRENT STATUS: CLSA reimbursed loan services continue throughout the state with 177 public libraries participating in the 2001/02 fiscal year (see Exhibit A). In April the LoC Board adopted 2001/02 reimbursement rates as displayed below, and as required by the Act, submitted those rates to the Department of Finance for their approval.

2001/02 Loan Program Reimbursement Rates as Determined by the Board

Interlibrary Loan (per eligible transaction)	\$3.87
Direct Loan (per net imbalance transaction)	\$.73

As of this writing, the State Department of Finance has not acted on the 2001/02 reimbursement rates as adopted by the Board in April of this year. It is anticipated that the State Department of Finance will approve the rates based on the augmentation in the 2001/02 Budget Act. The augmentation provided a \$1.251 million increase to the TBR baseline for increases in both the transaction levels and service costs for CLSA loan services based on actual data from the 1999/2000 fiscal year. Based on the increase in the augmentation, the 2001/02 reimbursement rates will be:

Interlibrary Loan (per eligible transaction)	\$3.82
Direct Loan (per net imbalance transaction)	\$.73

Once the Department of Finance has given its approval of the rates, the Chief Executive Officer will inform all program participants of the approved rates.

If transactions occur at the rate projected for fiscal year 2001/21, (1,217,465 eligible interlibrary loans from public libraries and nonpublic library loans; 10,538,000 net imbalance direct loans) the appropriation of \$12,145,000 will be insufficient to pay the

full cost of the program by nearly \$198,455.

Exhibit C contains an eleven-year history of reimbursement shortfall based on the Board's adopted rates for the program. Board adopted rates are calculated from the results of the annual cost study conducted by various program participants.

PROGRAM TRENDS: Final transaction counts for the 2000/01 fiscal year and projected totals for 2001/02 are displayed below.

2000/01 LOAN ACTIVITY						
	1 st Quarter <u>Actual</u>	2 nd Quarter <u>Actual</u>	3 rd Quarter <u>Actual</u>	4 th Quarter <u>Actual</u>	2000/01 Total <u>Actual</u>	2001/02 Total <u>Projected</u>
ILL Reimbursable						
Transactions – Public	263,341	253,176	294,557	307,279	1,118,353	1,174,271
– Non-Public	-----	-----	-----	-----	-----	43,194
Direct Loans:						
Total	5,777,044	6,414,415	6,286,508	6,869,798	25,347,765	26,108,200
Direct Loans:						
Net Imbalance	2,355,115	2,583,801	2,588,599	2,769,071	10,296,586	10,538,000

TRANSITION PROCESS: The transition process has already begun with the establishment of the Library of California interlibrary loan pilot program, which is funding nonpublic library ILL compensation. Also, the pilot program reimburses public libraries for loans to for-profit and governmental libraries; these transactions are not eligible under CLSA. Other transition benchmarks will include the establishment of a Library of California direct loan compensation program and the transfer of existing CLSA loan reimbursement funds to the Library of California budget. The Board also will adopt additional regulations, including handling cost reimbursement rates, although not necessarily before transition takes place, since basic regulations already have been established. Technically, under current Library of California regulations, elements of the CLSA loan program can transition to the Library of California as programs are established and either CLSA funds have been transferred or adequate Library of California funding has been allocated, even if additional rulemaking has not been completed (although the Board would have to adopt the CLSA reimbursement formula as the interim Library of California formula until the results of the upcoming cost study have been incorporated into regulation).

For example, one potential scenario is that the Board could take action to authorize the transition of the nonpublic library element of the CLSA interlibrary loan program to the Library of California and establish an interlibrary loan program by changing the status of its current program from pilot to permanent. This program also would augment the current CLSA ILL program for public libraries, since it would include compensation for public library loans to for-profit and governmental libraries. The Board also could propose a date for the transition of the remainder of the CLSA interlibrary loan program – the public library element – to the Library of California program, provided CLSA interlibrary loan

funds have been transferred to the Library of California program budget.

RELATED ISSUE TO COME BEFORE THE BOARD IN THE FUTURE: Updates on actual and revised projections of TBR Program levels and costs.

Relevant Committee: Access Services
Staff Liaison: Sandy Habbestad

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